

Message Text

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 00553, JANUARY 7, 1977

1. SUMMARY

THE INDICATIONS THAT BUSINESS CONFIDENCE IS INCREASING
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ARE BECOMING MORE NUMEROUS. A RECENT BOF SURVEY
CONFIRMS THAT THERE HAS BEEN AN IMPROVEMENT IN
THE BUSINESS ENVIRONMENT, MAINLY DUE TO DECEMBER'S
ECONOMIC RESULTS WHICH PROVED TO BE MUCH BETTER
THAN HAD BEEN GENERALLY EXPECTED. IN ADDITION,
THE PATRONAT HAS FINALLY GIVEN ITS FULL-HEARTED
SUPPORT TO THE BARRE PLAN. DESPITE THESE

PROMISING SIGNS, THE GOF STILL HAS ITS HANDS FULL OF PROBLEMS SUCH AS A HIGH LEVEL OF UNEMPLOYMENT AND COMPANY FAILURES, PLUS A SERIES OF STRIKES CALLED FOR NEXT WEEK. END SUMMARY

2. BOF CONFIRMS IMPROVEMENT IN BUSINESS CLIMATE

THE MOST RECENT BOF REPORT ON THE CURRENT ECONOMIC SITUATION CONFIRMS THAT THE BUSINESS CLIMATE HAS SHOWN A MARKED IMPROVEMENT AND THAT COMPANY HEADS ARE VIEWING THE FUTURE WITH MORE CONFIDENCE. THE MAINTENANCE OF ACTIVITY AT THE LEVEL ATTAINED DURING THE LAST SEVERAL MONTHS SEEMS TO THEM ASSURED, AT LEAST UNTIL THIS SPRING. THIS INCREASED CONFIDENCE IS LARGELY DUE TO THE FACT THAT THE LEVEL OF ACTIVITY IN DECEMBER WAS HIGHER THAN HAD GENERALLY BEEN EXPECTED. BECAUSE HOLIDAY INTERRUPTIONS WERE LESS IN NUMBER AND DURATION THAN MOST COMPANY HEADS HAD PREDICTED, THERE WAS ONLY A SLIGHT DECREASE IN TOTAL PRODUCTION.

THE DIVERSITY AMONG SECTORS AND FIRMS WITH REGARD TO THEIR CURRENT ECONOMIC SITUATION AND GROWTH CONTINUED TO INCREASE. THE LEVEL OF ORDERS SHOWED THAT FRENCH PURCHASERS WERE CONTINUING TO BE VERY CAUTIOUS. HOWEVER, EXTERNAL DEMAND APPEARED TO BE HIGHER, NOT ONLY IN THE CAPITAL GOODS SECTOR, WHERE IT HAD ALREADY UNCLASSIFIED

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BEEN HIGH, BUT ALSO FOR INTERMEDIATE GOODS. THE LEVEL OF STOCKS REMAINED NORMAL. METALURGICAL AND INDUSTRIES ASSOCIATED WITH BUILDING AND CONSTRUCTION REMAINED AT A GENERALLY LOWER LEVEL THAN INDUSTRY OVERALL. THE DOMESTIC DEMAND FOR CAPITAL GOODS CONTINUED TO BE SLUGGISH, REFLECTING A LOW RATE OF NEW INVESTMENT. THE PRODUCTION OF CONSUMER GOODS REMAINED AT A SATISFACTORY LEVEL, ORDERS WERE BEING RENEWED REGULARLY, BUT EXPORTS CONTINUED TO BE DIFFICULT. OVERALL, THE BANK CONCLUDED THAT: "MAINTENANCE OF THE CURRENT LEVEL OF ACTIVITY WOULD SEEM ASSURED, BUT SOME UNCERTAINTY EXISTS IN CONNECTION WITH THE FUTURE BEHAVIOR OF HOUSEHOLDS."

3. PATRONAT SUPPORTS BARRE PLAN

FRENCH BUSINESS LEADERS FOR A LONG WHILE SKEPTICAL AND DISTRUSTFUL OF THE BARRE PLAN, HAVE AT LAST

JOINED RANKS WITH THE PRIME MINISTER. THE GENERAL
ASSEMBLY OF THE PATRONAT, HELD THIS PAST WEEK,
CAME OUT IN UNAMBIGUOUS SUPPORT OF THE BARRE PLAN.

4. MAJORITY OF INDUSTRIES SUBSCRIBING TO PRICE
AGREEMENTS

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THE SYSTEM OF PRICE AGREEMENTS BETWEEN GOF AND
INDUSTRIES WHICH REPLACED THE PRICE FREEZE ON
JANUARY1(SEE PARIS 36375) IS BEING VERY WELL
RECEIVED. BY THE END OF THIS WEEK THE NUMBER OF
PROMISES OF PRICE INCREASE MODERATION, SIGNED AND

AGREED TO BY THE GOF, WILL COVER 60 PERCENT OF FRENCH MANUFACTURING. THE ACCORDS ALREADY CONCLUDED FORESEE PRICE INCREASES ON THE ORDER OF UNCLASSIFIED

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5 TO 6 PERCENT, BUT PHASED OVER THE ENTIRE YEAR, WITH DIFFERENT PRODUCTS INCREASING AT DIFFERENT TIMES SO AS TO AVOID PRICE BULGES.

5. SANCTIONS FOR EXCESSIVE WAGE INCREASES

ACCORDING TO INFORMED SOURCES, FOUR ENTERPRISES, NOT IDENTIFIED, HAVE BEEN EARMARKED FOR SURVEILLANCE AND POSSIBLE SANCTIONS FOLLOWING INSTRUCTIONS FROM THE PRIME MINISTER, FOR HAVING BROKEN THE RECOMMENDED GUIDELINES FOR WAGE INCREASES. THE SANCTIONS, WHICH HAVE NOT BEEN MADE PUBLIC, COULD BE OF SEVERAL KINDS: THE AUTHORITIES COULD DENY PRICE INCREASES TO SUCH FIRMS OR ENFORCE A SEVERE MODERATION OF SUCH INCREASES; OR THEY COULD CUT OR REDUCE THEIR CREDITS OR PREVENT THEM ACCESS TO GOVERNMENT ORDERS AND CONTRACTS. COMMENT: THE LACK OF DETAILS IN THIS MATTER SUGGESTS THAT THE AUTHORITIES MAY BE PUBLICIZING IT AS A WARNING OF POSSIBLE ACTIONS IN THE FUTURE, AKIN TO THE HIGHLY PUBLICIZED TAX CASES OFTEN PRESENTED IN THE UNITED STATES AS INCOME TAX TIME COMES ROUND. IN ANY CASE, WHILE THE THREAT IS CLEAR, BOTH THE GUIDELINES AND THE SANCTIONS REMAIN VAGUE. IF FURTHER DETAILS ARE PROVIDED IN THIS CASE, CLEARER GUIDELINES MAY BE ESTABLISHED. END COMMENT.

6. SERIES OF STRIKES CALLED

A SERIES OF STRIKES HAVE BEEN CALLED AGAINST THE SNCF, THE NATIONALIZED RAILWAY SYSTEM, ON JANUARY 26; PUBLIC SERVICES, WHICH INCLUDE THE POST OFFICE AND TELEGRAPH SYSTEM AND SCHOOLS, ON JANUARY 27; COAL-MINING (PROVIDED THAT THE NEXT MEETING OF THE MANAGEMENT DOES NOT PROVIDE ANY CONCRETE RESULTS) FOR JANUARY 31; AND THE ELECTRICITY AND UNCLASSIFIED

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GAS COMPANY OF FRANCE (EGF), THE GOVERNMENT-OWNED PUBLIC UTILITY COMPANY, FOR THE FIRST OF FEBRUARY. THE UNIONS ARE UNANIMOUS WITH REGARD TO THE STRIKES

IN THE PUBLIC SERVICES AND COAL-MINING, BUT THE
CGT AND CFDT ARE ALONE IN THEIR APPEAL FOR STRIKES
AT THE SNCF AND EGF. OTHER STRIKES ARE PROBABLE
FOR RAPT, THE URBAN TRANSPORTATION SYSTEM, AND
AIR FRANCE.

THESE STRIKES HAVE BEEN CALLED TO PROTEST THE HARD
LINE GOVERNMENT AUTHORITIES HAVE TAKEN IN RECENT
WEEKS CONCERNING WAGE PROPOSALS, IN PARTICULAR
THE PROPOSAL WHICH WAS PRESENTED BY THE MANAGEMENT
OF THE EGF ON JANUARY 14. AS PREVIOUSLY REPORTED,
GOF HAS FREED ITSELF FROM THE OBLIGATION WHICH HAD
EXISTED IN THE EGF CONTRACT SINCE 1971 PROVIDING
FOR A 2 PERCENT INCREASE IN REAL WAGES. AT THE
FIRST NEGOTIATION SESSION HELD ON JANUARY 14,
MANAGEMENT PROPOSED AN INCREASE OF ONE PERCENT
AND ONLY IF THE BARRE PLAN ATTAINS ITS OBJECTIVES.
THE GOF OBVIOUSLY WANTS TO LEAVE THE DOOR OPEN TO
DETERMINE AT A LATER DATE IF THE PLAN HAS BEEN
SUCCESSFUL OR NOT. COMMENT: DESPITE THE CALL FOR
STRIKES, WHICH WILL PROBABLY HAVE AN UNIMPRESSIVE
RATE OF WORKER PARTICIPATION, THE GOF WILL
UNDOUBTEDLY STICK TO ITS POLICY OF WAGE RESTRAINT.
END COMMENT.

7. LEADING JOURNAL FORECASTS
2.5 PERCENT GROWTH IN GIP IN 1977

THE HIGHLY RESPECTED ECONOMIC JOURNAL L'EXPANSION

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FORECASTS A 2.5 PERCENT INCREASE FOR FRENCH GROSS
INTERNAL PRODUCT IN 1977. TO DATE THIS IS THE
LOWEST PUBLIC FORECAST FROM A LEADING ECONOMIC
AUTHORITY. L'EXPANSION ALSO PREDICTS THAT THE
BARRE PLAN WILL SUCCEED IN BRINGING DOWN THE
RATE OF INCREASE IN PRICES TO 8.5 PERCENT BETWEEN
THE BEGINNING AND END OF THE YEAR AND THE RATE
OF HOURLY SALARIES TO 10.5 PERCENT.

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L'EXPANSION'S FORECAST OF THE ANNUAL GROWTH RATES
IN 1977 FOR THE MAJOR COMPONENTS OF THE
FRENCH NATIONAL ACCOUNTS IS:

PERCENT

PRIVATE CONSUMPTION	3.0
PUBLIC CONSUMPTION	2.5
INVESTMENT	0.0
OF WHICH:	
ENTERPRISES (PUBLIC AND PRIVATE)	-1.0
HOUSEHOLDS	0.0
GOVERNMENT	3.0
STOCKBUILDING	9.0
EXPORTS	8.0
IMPORTS	5.0
GROSS INTERNAL PRODUCT	2.5

IN BILLIONS OF CURRENT FRANCS

L'EXPANSION'S FORECAST IS BASED ON THE FOLLOWING
CRITERIA:

CONSUMPTION AND SAVINGS: THE INCREASE IN HOURLY WAGES IS PREDICTED TO BE 2.0 PERCENT ABOVE THAT OF PRICES. A REDUCTION IN THE LENGTH OF TIME WORKED OUGHT TO RESULT IN AN INCREASE OF REAL WAGES SLIGHTLY LESS THAN 2.0 PERCENT. ON THE OTHER HAND, THE LARGE INCREASE IN TRANSFER PAYMENTS (15 PERCENT NOMINAL INCREASE) AND THE SMALL INCREASE IN DIRECT TAXES (ONLY 4 PERCENT) WILL LEAD TO A 3 PERCENT INCREASE IN REAL DISPOSABLE INCOME. THE RATE OF SAVINGS WILL REMAIN UNCHANGED AT 16.5 PERCENT BECAUSE THE FAVORABLE EFFECT ON SPENDING PRODUCED BY DECELERATION IN PRICES WILL BE NEUTRALIZED BY THE FEARS OF UNEMPLOYMENT. L'EXPANSION CONSIDERS UNCLASSIFIED

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A 3.0 PERCENT INCREASE OF CONSUMPTION AS THE MINIMUM POSSIBLE. AN INCREASE IS PROBABLE BEFORE THE END OF THE YEAR, ESPECIALLY IF BONUSES ARE DISTRIBUTED AS PRIME MINISTER BARRE HAS PROMISED IF HIS PLAN SUCCEEDS.

INVESTMENT AND STOCKS: PUBLIC INVESTMENT OUGHT TO INCREASE BY 3.0 PERCENT IN 1977 (ANNUAL AVERAGE). THIS IMPLIES A MUCH LOWER RATE THAN IN 1976 WHEN THE EFFECTS OF THE STIMULUS PROGRAM AT THE END OF 1975 WERE STILL OPERATING. THE CREDITS FOR EQUIPMENT PROVIDED FOR IN THE 1977 GOF BUDGET SHOW A DECREASE IN REAL TERMS WHICH WILL NOT BE FULLY OFFSET BY THE FUND OF FF 2.5 BILLION TO STIMULATE INVESTMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES.

PUBLIC ENTERPRISES, DESPITE THE BLOCKAGE OF THEIR TARIFFS UNTIL APRIL, SHOULD INCREASE THEIR REAL INVESTMENT BY 10 PERCENT. HOWEVER, PRIVATE ENTERPRISES WILL REDUCE THEIR REAL INVESTMENT, AT LEAST IN INDUSTRY, WHILE INVESTMENT WILL STAGNATE IN THE SERVICE SECTOR. THUS, TOTAL INVESTMENT OF ENTERPRISES WILL SHOW A SLIGHT DECREASE.

THE SITUATION IN THE INTERMEDIATE GOODS SECTOR WILL BE WORSE THAN IN THE CAPITAL GOODS SECTOR DUE TO A VERY CAUTIOUS INVENTORY POLICY ON THE PART OF BUSINESSMEN. ACCORDING TO INSEE, THE

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RATIO OF STOCKS TO SALES IN THIS SECTOR WHICH HAD
BEEN 1.8 AT THE BEGINNING OF 1975 FELL TO 1.3 IN
1976, WHEREAS THE PAST NORM HAD BEEN 1.5. THE
ASSUMPTION OF L'EXPANSION IS THAT BUSINESSMEN WILL
CONTINUE THEIR PRUDENT INVENTORY BEHAVIOR, WITH
THE RESULT THAT STOCK FORMATION WILL BE LOWER
THAN IN 1976. FOR ALL THE SECTORS CONCERNED,
THE MARKET WILL BE SLOW, FAR FROM MAXIMUM
INDUSTRIAL CAPACITY; THIS WILL CONTINUE TO DEPRESS
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INVESTMENT.

IMPORTS, EXPORTS AND THE FRANC: IMPORTS WILL GROW BY 5 PERCENT, IMPLYING AN ELASTICITY OF 2. L'EXPANSION'S EXPLANATION IS THAT THE LOW LEVEL OF INVESTMENT AND OF STOCKS WILL NOT GIVE THE COUNTRY SUFFICIENT FLEXIBILITY TO DEAL WITH AN INCREASE IN DEMAND, THUS FORCING IT TO INCREASE IMPORTS. EXPORT SALES SHOULD INCREASE BY 8 PERCENT.

L'EXPANSION FEELS THAT THE FRANC WILL STABILIZE AT ABOUT 5 TO THE DOLLAR. THE TRADE DEFICIT WILL BE FF 10 BILLION AT A MINIMUM, WHILE THE CURRENT ACCOUNT DEFICIT WILL BE AROUND FF 20 BILLION.

8. MACHINE-TOOL INDUSTRY MAY BE ON FIRST STEP TOWARD RECOVERY

SOME HOPE EXISTS THAT THE FRENCH MACHINE-TOOL INDUSTRY WHICH HAS BEEN IN A STATE OF DECLINE FOR THE PAST TEN YEARS MAY BE MAKING THE FIRST TENTATIVE STEPS TOWARD RECOVERY. ITS CURRENT SITUATION IS DISMAL. IN AN INDUSTRY WITH SLIGHTLY LESS THAN 200 FIRMS AND 24,000 EMPLOYEES, 3,000 JOBS HAVE BEEN ELIMINATED SINCE 1974. ITS DEBTS, AROUND FF 3 BILLION, ARE EQUAL TO ITS TURNOVER. IT IS RAPIDLY LOSING ITS INTERNAL MARKET TO FOREIGN COMPETITORS, WITH THE DEFICIT FOR THE FIRST TEN MONTHS OF 1976 FOR METAL MACHINES INCREASING TO FF 298.6 MILLION AS AGAINST FF 72 MILLION FOR ALL OF 1975.

THE INDUSTRY'S MAIN PROBLEM, IT IS COMMONLY AGREED, HAS BEEN ITS LACK OF INITIATIVE IN DEVELOPING NEW PRODUCTS. A GOVERNMENT PROGRAM TO AID THIS INDUSTRY, LAUNCHED IN JANUARY 1976, APPEARS TO BE UNCLASSIFIED

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BEARING SOME FRUIT. ALTHOUGH THOSE PROGRAMS DESIGNED WITH THE PURPOSE OF INCREASING PRODUCTIVE CAPACITY OR OF STRUCTURAL CONSOLIDATION HAVE HAD VIRTUALLY NO TAKERS, PROGRAMS MEANT TO IMPROVE AND EXPAND PRODUCT LINES HAVE BEEN MODERATELY SUCCESSFUL, ESPECIALLY IN COMPARISON WITH PREVIOUS YEARS.

9. MODERATE RECOVERY IN INDUSTRIAL PRODUCTION REGISTERED IN NOVEMBER.

INSEE'S SEASONALLY ADJUSTED INDEX OF INDUSTRIAL PRODUCTION, EXCLUDING BUILDING AND PUBLIC WORKS, WAS 126 IN NOVEMBER, UP FROM 123 IN OCTOBER. THIS

IS STILL BELOW THE SEPTEMBER LEVEL WHICH WAS 129.

PRODUCTION IN THE FOUR MAJOR SECTORS INCREASED
ALTHOUGH, WITH THE EXCEPTION OF THE CONSUMER
GOODS SECTORS, THE LEVEL OF PRODUCTION REMAINED
BELOW THAT OF SEPTEMBER. THE ENERGY AND CAPITAL

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GOODS SECTORS SHOWED THE LARGEST INCREASES IN PRODUCTION, 11.8 AND 6.8 PERCENT RESPECTIVELY ABOVE THE OCTOBER LEVELS, WHILE PRODUCTION IN THE CONSUMER GOODS SECTOR INCREASED BY 1.4 PERCENT AND IN THE INTERMEDIATE GOODS SECTOR BY 0.9 PERCENT. THE ONLY INDUSTRY SECTOR SHOWING A LARGE DECLINE IN

PRODUCTION WAS IRON ORE AND STEEL PRODUCTION
WHICH HAD A 6.6 PERCENT DECREASE IN PRODUCTION.

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10. 1976 RATE OF INFLATION PROBABLY JUST UNDER 10
PERCENT

PRELIMINARY UNOFFICIAL CALCULATIONS INDICATE THAT
RETAIL PRICES MAY HAVE INCREASED BY ONLY 0.3 - 0.5
PERCENT IN DECEMBER. OFFICIAL RESULTS WILL NOT BE
RELEASED UNTIL NEXT WEEK. IF THIS PROVES TO BE
TRUE, THE INCREASE IN PRICES WILL HAVE BEEN KEPT
TO JUST UNDER 10 PERCENT FOR 1976.

11. NUMBER OF UNEMPLOYED DECLINES SLIGHTLY IN DECEMBER

THE LEVEL OF UNEMPLOYMENT, BOTH SEASONALLY ADJUSTED
AND UNADJUSTED, DECREASED SLIGHTLY IN DECEMBER.
SEASONALLY ADJUSTED UNEMPLOYMENT WAS 929,000, DOWN
FROM 931,400 IN NOVEMBER, WHILE UNADJUSTED UNEMPLOYMENT
WAS 1,036,900, DOWN FROM 1,041,300. SEASONALLY
ADJUSTED UNFILLED JOB OFFERS SHOWED A SLIGHT
INCREASE, BREAKING THE DOWNWARD TREND OF THE
THREE PREVIOUS MONTHS. WE ESTIMATE SEASONALLY
ADJUSTED UNEMPLOYMENT TO BE 4.2 PERCENT OF THE LABOR
FORCE. (SEE PARIS A-322 OF 1975 FOR METHODOLOGY).

LABOR MARKET INDICATORS
(SEASONALLY ADJUSTED; IN THOUSANDS END OF MONTH)

JULY AUG. SEPT. OCT. NOV. DEC.

REGISTERED

UNEMPLOYMENT 950.1 961.7 941.3 935.4 931.4 929.9

UNFILLED

JOB OFFERS 134.0 135.5 131.2 116.8 108.0 109.3

UNEMPLOYMENT AS

PERCENT OF

LABOR FORCE 4.3 4.3 4.2 4.2 4.2 4.2

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12 LARGE NUMBER OF COMPANY FAILURES DURING DECEMBER

INSEE REPORTS THAT ALTHOUGH THE NUMBER OF COMPANY

FAILURES, SEASONALLY ADJUSTED, DECREASED SLIGHTLY
IN DECEMBER, THE NUMBER REMAINED AT A HIGH LEVEL
IN MANY SECTORS. THE LEVEL AT THE END OF 1976
WAS CLOSE TO THE 1975 AVERAGE WHICH WAS VERY HIGH.
FOR INDUSTRY, THIS LEVEL WAS EVEN SURPASSED; IN
CONTRAST, FOR BUILDING -- PUBLIC WORKS, COMMERCE,
HOTELS-CAFES-RESTAURANTS, TRANSPORT AND OTHER
SERVICES, THE FIGURES FOR DECEMBER WERE MUCH BELOW
THEIR AVERAGE FOR 1975. DESPITE THE HIGH NUMBER
OF FAILURES AT THE END OF THE YEAR, THE TOTAL
NUMBER FOR 1976 WAS 14.1 PERCENT LESS THAN THAT OF
1975.

13. MONEY SUPPLY INCREASES BY 1.5 PERCENT IN OCTOBER

FIRST SENTENCE IN PARIS 01297 SHOULD HAVE READ: "THE
SEASONALLY ADJUSTED MONEY SUPPLY (M2) FOR OCTOBER WAS
844.1 BILLION, A 1.5 PERCENT INCREASE FOR THE MONTH
AND A 15.5 PERCENT INCREASE FOR THE 12-MONTH PERIOD
ENDING IN OCTOBER."

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14. OTHER REPORTS SUBMITTED DURING THE PERIOD
TELEGRAMS

PARIS
00567 TRENDS REPORT CLASSIFICATION 1/7
00704 VISIT OF ASCAP ASSISTANT GENERAL COUNSEL 1/10
00833 DOMSAT AND ZAIRIAN ECONOMIC PERFORMANCE 1/11
00834 NEXT PARIS CLUB MEETING ON ZAIRE 1/LL
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01245 LEADING POLL INDICATES COMPANY HEADS
PESSIMISTIC REGARDING PROSPECTS FOR
1977 1/13
01297 MONEY SUPPLY REGISTERS LARGE INCREASE
IN OCTOBER 1/14

AIRGRAMS

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Disposition Event:
Disposition History: n/a
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Disposition Remarks:
Document Number: 1977PARIS02041
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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TAGS: EALR, EFIN, EGEN, FR
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